



The Secretary of Energy
Washington, DC 20585

July 17, 2003

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Debi Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

TN REGULATORY AUTHORITY
DEBI TATE

Dear Commissioner Tate:

The Nation is currently facing difficult price and supply issues with natural gas. I am writing to update you about this situation, to inform you of actions the Administration is taking, and to offer several recommendations for State actions to address this important national energy issue.

As you know, the President's National Energy Policy (NEP) emphasizes the need for a diverse energy mix to strengthen our energy security. Natural gas has long been regarded as a cheap and abundant energy source in this country, but that outlook is changing. The NEP recognized the advantages of greater fuel diversity and included recommendations to the Congress to ensure that America will have reliable and affordable sources of energy. Most of the recommendations that required Administration action are in the process of being implemented.

The Energy Information Administration (EIA) has indicated that the Nation's stocks of natural gas in underground storage are unusually low due to weather factors and declines in both domestic production and new imports. Fortunately, the industry is responding by increasing storage stocks, as indicated by recent record storage injection. Nevertheless, a hot summer could increase the use of gas for electricity generation and hamper efforts to rebuild storage levels adequately before next winter. EIA forecasts that natural gas prices will average \$5.00 to \$6.00 per million Btu for the remainder of the year but ease slightly in 2004. Last year at this time, natural gas prices were averaging \$3.32 per million Btu.

Responding to indications of a supply/demand imbalance in March, 2002, I asked the National Petroleum Council (NPC) to conduct a comprehensive study of natural gas in the United States during the 21st Century. The NPC will deliver its report this fall. In my view, we cannot wait until the study is complete to take action on the more immediate problems we face. Recently, the Department of Energy and the National Petroleum Council hosted a Natural Gas Summit. The event was attended by State and Federal regulators; industrial, residential, and commercial gas consumers; electric utilities and independent generators; along with experts in energy efficiency and conservation. The attendees discussed problems and solutions and identified some actions that can be taken immediately to ease short-term supply constraints.



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There are only limited opportunities to increase supply over the next 12 to 18 months; therefore, the emphasis must be on conservation, energy efficiency, and fuel switching. A number of areas for potential State action were discussed at the Summit, including:

- (1) *Increased emphasis on existing gas and electric utility programs to improve consumers' energy efficiency and demand response* -- In recent years funding and policy support for these programs have lagged in some States. I urge you to work with gas and electric utilities, the Governor, and State legislature if appropriate, to revisit the level of these programs and ensure that they are implemented aggressively.
- (2) *Information and education campaigns on electric and gas conservation opportunities* -- Consider having your State develop such campaigns to show how consumers can act now to hold down future gas and electric bills. Almost all consumers can find some simple and cheap actions to take now that will improve the weatherization of their homes for summer and winter conditions.
- (3) *Using more efficient power sources* -- During times of high natural gas prices, it is more important than ever to utilize the most efficient generating facilities possible in order to reduce gas usage. Dispatching power plants on a regional basis will encourage the use of lower cost fuel sources and ensure that the gas plants that operate are the most efficient combined cycle plants available. Combined cycle plants generate electricity much more efficiently and consume substantially less natural gas per kilowatt hour of output.

Utilities that recognize this and are able to purchase electricity from combined cycle plants will reduce their purchased power costs and cushion the impact of higher natural gas prices on their electricity ratepayers. Further, by switching their power purchasing to cleaner, more efficient power plants, utilities will help decrease overall natural gas consumption and reduce pollution. Public Utilities Commissions (PUCs) should work with State-regulated utilities to ensure that ratepayers benefit from the economic and environmental benefits of natural gas combined cycle power generation.

- (4) *Infrastructure expansion* -- As the demand for natural gas increases, there will be a continuing need to significantly expand natural gas infrastructure to meet the energy needs of our country. I encourage you to ensure that unnecessary regulatory delays are not having a detrimental effect on our ability to bring additional gas to markets.

- (5) *Specific Public Utility Commission actions* -- The Department of Energy understands that most State PUCs and gas companies, in their attempt to protect consumers, are traditionally required to review and closely monitor the provider's costs are passed along in the form of higher energy bills to ratepayers.

Several options for PUC consideration to reduce consumers' gas bills during the heating season, when, for most ratepayers, gas consumption is at its peak level, were discussed. Although they may require legislative authority and major Commission actions, you may want to consider:

- Cost recovery mechanisms to effectively balance the objectives of low gas cost and low price risk;
- Customer options for levelized/budget billing plans; and
- "Price stability" regulatory tools that allow local distributor companies (LDCs) to execute longer-term gas contracts and/or hedging.

Working together we can address these problems to make the necessary improvements that will continue our economic recovery as well as ensure the reliability of energy service throughout our Nation.

In addition to the recommendations listed above, the Department of Energy, in its effort to implement the NEP, is in the process of developing initiatives to provide the American people with valuable tips about how to save and conserve energy. One important element of that campaign is to provide more consumer-oriented information. For this reason, the Department has created its Energy Savers web page: www.energysavers.gov.

We invite you and your staff to visit this site and help spread the conservation message by providing a hyperlink to Energy Savers on your webpage.

Please find enclosed a copy of my remarks to the attendees of the Natural Gas Summit. If you require further information, please feel free to contact me or Mr. Herb M. Jones, Deputy Assistant Secretary for Intergovernmental Affairs, at (202) 586-5450.

Sincerely,



Spencer Abraham

Enclosure